Analysing the markstrat simulation

The Markstrat simulation, as I've come to realise over the past month or so, is a highly dynamic simulation that's heavily driven by a syncretic combination of the game's pre-programmed market forces and the actions of the competition in the industry. What's hard to fathom, though is how quickly things start to get out of hand and how strategies begin to unfold, as quickly as the end of the first round.

Before the game started off, we were informed that initially the Sonite market would be the only one that's open, and after a few rounds, the Vodite market would be thrown open for the teams to create products. The only problem in the scenario was that investing in R&D for Vodite required millions of dollars in investment. While playing the practice rounds, we also realised that there were extremely tight restrictions on financial resources, which meant that any product (both Sonite and Vodite) that we were introducing in the market would definitely need to be extremely relevant to the customer. When it came to introducing a Vodite product, we (or any other team, for that matter) simply couldn't financially afford to make a mistake.

And yet, despite the high stakes, the strategy adopted by our team involved being the first mover in the Vodite market, and dominating it right from the formation of this new industry, starting with products catered to the innovators and early adopters, the two more evolved segments of the Vodite market.

This decision can be justified if we look at Porter's Five Forces Model and compare the two industries. Since the cost of researching and introducing a

Vodite product into the market was a much more expensive proposition than it was to introduce a Sonite product, the limits on loans and limited marketing budgets would ensure that there was a ready made entry barrier for the Vodite market, which did not really exist in the Sonite market. This would also reduce competition within the industry, as even future R&D projects were bound to be expensive.

But, in order to compete successfully in the Vodite market, we would need to ensure that we were financially profitable in the Sonite market, increasing volumes and bottomline that would help give us a marketing budget big enough for us to enter the Vodite market at the earliest. And in SAMA and SALT, we had two products that were produced at a very low base cost and were targeted at the Others and Singles, consumer segments in the Sonite market who had very low performance and design requirements, but who were highly price sensitive. The strategy, therefore, was to commoditise the market by lowering the price of the two products significantly, reducing the communications expenditure, hiking up production levels and increasing the sales force to ensure that the maximum units possible of the products were sold, thereby greatly increasing turnover and thus putting us in a position where we had the maximum amount of funds possible for us to get into the Vodite market as soon as possible, where a very different strategy would be followed.

In terms of looking at our strategy in terms of the BCG matrix, SAMA and SALT were effectively cash cows, products that were doing well currently but didn't have great potential for growth in the future. One of the limitations of the simulation, unfortunately, was that all teams were given default products

in the beginning, which greatly shaped the marketing strategy of the company, and our decision to commoditize SAMA and SALT were largely based on the physical characteristics of the product and the segment towards which the products were targeted at. The others, as a segment, would not be as responsive towards a differentiated product as they would be to a product that was priced lower than the competition. Even the R&D efforts for our products aimed at this group were trying to reduce base costs significantly, rather than the levels of the product attributes.

As a company, we did not want to follow a cost leadership strategy overall, which is why the products we developed for the Vodite market, VATA and VATO, were targeted at the innovators and early adopters, with the aim to make them the stars of our product portfolio. While VATA was a star throughout, VATO could be classified as a question mark, a product that could certainly become a star in the future, provided certain modifications are made.

According to Michael Porter’s 1980 book, Competitive Strategy: Techniques for Analysing Industries and Competitor’s, companies with low market share as well as those with high market share were more likely to be profitable than companies with a moderate market share. The reason why the former were successful was because of higher margins and more focussed segmenting, whereas the latter were successful due to high volumes and a cost leadership strategy Since our Sonite products were inherently less profitable per unit than many of our competitors and were targeted at the others, we aimed to maximize market share at the cost of profit per unit (in

the Sonite market) by pursuing a cost leadership strategy and thus improving our company's performance.

Since both the products had good levels of brand awareness across segments, we actively chose to reduce communication expenditure, believing that both the consumer segments we were targeting were more likely to be swayed by price at the point of sale rather than any communication-based initiatives. Accordingly, we decided to increase our sales force as well across

However, by the time the first round had ended, we had fallen considerably behind the rest of the teams, much to our shock. We soon discovered that there had been a technical glitch while uploading our results to the main server, and the default permutations had been entered. This, although tragic in nature, made us realize that in such a dynamic environment, not having a specialised, customised strategy can be absolutely disastrous, and that doing as much as was done the previous year can mean the death knell for a brand.

As a result of this glitch, our performance suffered greatly, and we were given a slashed marketing budget for the next year. Although we were allowed the use of a loan, we were essentially starting one year behind the rest of the teams, as along with the customized allocation of budgets, even the commissioned R&D projects were not entered into the main server for them to be ready the next year. Due to this, a major cost-cutting project we had intended to implement for SALT that would have seen the base cost of the product significantly reduced and made the product the cheapest pin the

market by a considerable distance. As things stood, however, this did not come to fruition, and we had an excessive inventory (and its associated cost) we were saddled with due to the lesser-than-anticipated sales of our products. Along with this, the fragmentation of the market which occurred after the end of the first round is something that we could not deal with properly due to the technical error

As a result of this error (along with a few other human errors), the team performed poorly during the initial phase, with the share price, total market share, total retail sales and net contribution all showing a year on year decline for the first four years. But the remedial action continued through each round: SAMA underwent major R&D to improve its attributes, as well as price, and was re-launched as SALA. This, in hindsight, proved to be an error in strategy. Our assumption was that with a new brand, any negative feelings in the minds of the customer towards SAMA would be eradicated and the brand would get to start with a clean slate, would have a competitive advertising spend to build awareness, and would have a strong sales force to ensure that it was picked up at the point of purchase. However, the sales of the brand were not as expected, due to the low levels of awareness that the customer had regarding the brand, which could have been averted by launching the brand under the previous brand name alone.

This raises an interesting point: What factors govern the choice between a new brand launch and re-launching an existing brand?

From what I’ve learnt through this simulation, I believe that in order to justify a new brand launch, we should have considerably greater changes in R&D to

the product, adding enough value to it to be perceived as a completely different offering altogether. In our case, both the incumbent product as well as the new one had fairly similar characteristics and a fairly similar proposition, which didn’t show a great enough degree of deviation for it to be launched as a new brand. Furthermore, launching a new brand requires a much higher communication spend than an already-established brand in order to increase brand awareness and build intention to purchase. However, since we were severely constrained in terms of resources at that point of time, and even though we did increase the spends, it clearly was not to the level required to successfully launch a new brand. Therefore, from the above arguments, degree of deviation from the existing product and resource levels are two major factors that govern the choice between a new brand launch and the re-launch of an existing brand.

Finally, after four rounds of enforced trial-and-error, where we had given up hope of capturing any sort of established position in the Sonite market due to the runaway success of the competition (who, incidentally, had adopted a very similar strategy to our initial one), the opportunity to enter the Vodite market had finally come. After taking very hefty loans, we managed to introduce a new product, VATA, into research, which had been perceptually mapped to have the optimum level of product features that were required by the innovators, the most evolved customer segment in the Vodite market, and also the segment from where the highest volumes would be generated during the initial phase. Even though the first part of our strategy, the part concerning our actions in the Sonite market had not entirely gone to the plan, we still planned on sticking to our strategy for the Vodite market.

Accordingly, we advertised heavily for this product, increased its sales force and were rewarded with a market share of 36% within the first year itself. The success of VATA encouraged us to introduce a brand new product, VATO, for research and development the next year, targeting early adopters and followers. This product, however, did not prove to be as successful as VATA, because its perceptual mapping was not exactly to the customer's needs due to lack of available resources, as loans were not allowed for two consecutive rounds.

To counter the problem of non-consecutive loans(as we never reached a stage where our marketing budget was sufficiently large enough, due to the technical error in the first round), we created a system whereby the year in which we did take a loan, we would take an extremely large loan, initiate all our major research and development projects within this period and heavily increase our advertising expenditure and sales force strength. The following year, we would just implement minor research and development work and would usually have to cut advertising expenditure, while trying our hardest to avoid cutting down on our sales force, in order to stay within the budget.

By this time, our focus had clearly shifted to the Vodite market, as the Sonite market, being an extremely price sensitive market where a full blown price war was being waged, severely bringing down levels of profitability for many of the products. Still, our continued improvements in the Vodite market helped us improve our overall profitability, increase our volumes, share price and overall performance, except for the final round, where our market share declined by 37% due to the increasingly volatile Vodite market, where prices

were drastically decreasing and attribute levels on the perceptual map were simultaneously increasing.

Unfortunately, at the end of it, our strategy had failed. Porter's belief that a company with middling market share tends to be less profitable than companies with either a high or low market share turned out to be correct, and we had finished third in our group of five teams.

Sales Force

Both the Sonite and the Vodite market were broken up into three channels of distribution: speciality stores, departmental stores and mass merchandising outlets. For the Sonite market, the departmental stores and mass merchandising outlets were the preferred channels of purchase for the Others and the Singles, while speciality stores dominated for the high earners and professionals. For the Vodite market, innovators and early adopters were more likely to shop at speciality and department stores, while followers would shop more at mass merchandising outlets. The clear trend observed here is that the more evolved the buyer is, the more likely he is to shop at a specialty store over a mass merchandising outlet, probably due to the difference in levels of experience and shopping preferences.

The allocation of resources towards the sales force was an extremely important part of the juggling act that had to constantly be maintained while allocating the marketing budget across various verticals, and was something that was learnt via trial and error across multiple rounds. The practice rounds proved to be an effective experimental platform for selecting the optimal sales force level for each channel of distribution. This break-up of sales force

between various channels was decided proportionally on the basis of intention to purchase by the target audience.

For the Sonite market, we followed a strategy whereby we decreased price and advertising expenditure on both our products, SAMA and SALT, utilizing the excess amount to ramp up our sales force levels. From the first year onwards we had the highest sales force with 176, with the nearest competition having just 135. We were only overtaken in the fourth year, that too because the competition had four products in the market, whereas we had only two. This was the trend right till the end, and we have constantly maintained the highest sales force ratio in the industry on a per product basis throughout the entire duration of the exercise.

Within our sales force, the highest distribution was towards the mass merchandising channel, as the Singles and the Others, the two main consumer segments that our products SALT and SAMA were targeted towards. It also helped that there was a considerable amount of overlap between the Others and the Singles when it came to intention to purchase between SAMA and SALT. There was also a considerable allocation of sales force towards departmental stores, and a much smaller proportion towards speciality stores. Indeed, by round 6, there was zero sales force in speciality stores, as we had only one product (SALT) in the Sonite market at the time, and it had a very low amount of sales expected in departmental stores, which made it inefficient to service. However, as consumer preferences and our products evolved, by the final round, the speciality stores had their highest proportion of the sales force distribution of all time (still a meagre 10 salespeople).

For the Vodite market, on the other hand, our initial strategy was exactly the opposite of our strategy in the Sonite market. We had a quality product that had attributes which were perfectly mapped to the intended target audience, the Innovators. We had spent a large amount of money to advertise it, and we had positioned the communication exactly to fit the needs of the Innovators. And we knew the likely shopping habits of this market segment extremely well. The overwhelming majority of sales force was allocated towards speciality stores, with a very small percentage being allocated towards departmental stores and absolutely no allocation for mass merchandising outlets. This, however, kept evolving as the Vodite market kept evolving. By the seventh year, the sales force allocation for the departmental store channel as well as mass merchandising had overtaken speciality stores as the channels of preference to purchase occur. And by the final year, the evolution of marketplace and products had left the mass merchandising channel with the greatest allocation of sales force amongst the three.

Sales force allocation, however, can hardly be done in isolation from the res t of the functions that form part of the marketing budget. Fundamentally, sales force allocation is dependent upon market research reports, STP decisions, production decisions, business strategies, marketing communication decisions, sales forecasts and the brand portfolio. While we were working between rounds, all these decisions were being made in a coherent, orderly manner, with a very clear link between them. The process begins with market research reports identifying need gaps or areas of improvement and strategies being created to ensure that these

opportunities are exploited to the fullest, leading to R&D projects with attributes that match people's requirements, followed by the introduction of the product and decision making regarding its production levels, price, the level of marketing spend and its allocation across customer segments, as well as sales force spend and its allocation across the different channels. To put it in the form of a figure:

Therefore, we can clearly see that the functions above the product level follow a sequential pattern, occurring one after the other, following which all decisions are made simultaneously, on the basis of the preceding factors. To classify them, we could say that market research, strategy and R&D are creator functions, whereas the other three below them are finisher functions. The degree of control over the outcome of results increases with each level we drop down.

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Application of Markstrat Learnings to a Company

Since my summer internship was at Sony Entertainment Television, I will try and apply my learnings from the Markstrat assignment to this channel

About the Company

Sony Corp. is a Japanese multinational conglomerate corporation headquartered in Minato, Tokyo, Japan and the world's fifth largest media

conglomerate with revenue exceeding ¥ 7. 730. 0 trillion, or $78. 88 billion U. S. It is one of the leading manufacturers of electronics, video, communications, video game consoles, and information technology products for the consumer and professional markets. Sony Corporation is the electronics business unit and the parent company of the Sony Group, which is engaged in business through its eight operating segments – Consumer Products & Devices (CPD), Networked Products & Services (NPS), B2B & Disc Manufacturing (B2B & Disc), Pictures, Music, Financial Services, Sony Ericsson and All Other. These make Sony one of the most comprehensive entertainment companies in the world. Sony's principal business operations include Sony Corporation (Sony Electronics in the U. S.), Sony Pictures Entertainment, Sony Computer Entertainment, Sony Music Entertainment, Sony Ericsson, and Sony Financial. As a semiconductor maker, Sony is among the Worldwide Top 20 Semiconductor Sales Leaders.

Sony Entertainment Television, commonly known as Sony TV or SET, is one of the India's most popular urban Hindi-language based general entertainment channel. Based in Mumbai, Maharashtra, it is owned by Multi Screen Media Pvt. Ltd. (MSM, formerly SET India Private Limited)[, a subsidiary of Sony Pictures Entertainment since 1995. MSM's family of channels in India includes SAB TV, SET Max, SET PIX, AXN and Animax, distributed by MSM Discovery Private Limited (a distribution joint venture between MSM and Discovery Communications India).

In the television industry, contrary to popular belief, the audience isn't the consumer; it's the product that the television channel sells to advertisers, their primary consumers. Therefore, the channel with the highest GRPs

commands the highest advertising rates in the industry, and the entire business is a rat race on a bi-weekly basis, as that’s the frequency with which TAM releases its television ratings.

Sony Entertainment Television, a HINDI GEC (General Entertainment Channel), competes in the most lucrative, as well as the most competitive segment of the television market. Its main competitors are Star Plus, Zee TV and Colors, as well as Imagine Television and Star One to a limited extent. Star Plus, Colors and ZEE TV are in fierce competition for the top spot in the genre, with rankings fluctuating on a weekly basis, but generally being dominated by Star Plus over the past few years. Sony, which was at one point of time the top dog, had slipped terribly since the Peter Mukerjea and Ekta Kapoor-led revolution at Star Plus shook up the entire face of the industry. As the market has fragmented further, with the entry of Imagine TV, Star One and Colors into the genre, Sony’s share of the pie has decreased even further, and it now stands at a fairly distant fourth in the industry, more than 100 GRPs behind the top three channels.

To understand the reason for Sony’s poor performance, one only needs to look at the TAM ratings once to see that Sony does not have a single fiction show that ranks in the top ten shows in terms of TRPs. Its highest-rated fiction show, CID, is more than a decade and a half old, and its primary viewers are male, which is not the segment of the television audience that a GEC should be targeting if its aim is to garner the maximum TRPs. The channel is so devoid of quality content that it has resorted to airing re-runs of old CID episodes with a very high frequency throughout the day, hoping

that their target audience wouldn't mind watching classic episodes of their favourite show.

Upon analysing the ratings in terms of markets, it's evident that since Sony is a Hindi channel, the Hindi Heartland, i. e. UP and Bihar are extremely important markets for a GEC to be a success, and after a research I conducted in cities across UP and Uttarakhand, I found out that no one in the primary target audience for GECs (C&S households, Housewives, Ages 23-40, SEC B&C) watches any of Sony's programming. This is primarily because Sony has never understood this consumer well at all, having previously targeted the metro-based, SEC A, primarily English-speaking audience for their shows, a viewer segment that had shown a steep decline in importance over the years as cable and satellite television made their way into smaller towns all across the country, greatly increasing the size of the television-viewing universe. The current game changer is not the big city audience; it's the small town one. And this viewer wanted content with drama, values and traditions, but also content that was socially relevant. And Sony had always been reluctant to associate with such content, which it deemed to be beneath its aspirational image. Indeed, it had turned down the chance to air Balika Vadhu, a controversial show depicting child marriage, which turned out to be one of the highest -rated shows on air, constantly scoring high TRPs. Instead, it tied up with Yash Raj Films to create brand new fiction content aimed at the young, urban crowd with liberal values and less conventional tradition. Needless to say, the shows bombed spectacularly, failing to achieve even TRPs of above 0. 5 (Balika Vadhu consistently scores above 5 in TRPs), with Sony losing quite a bit of money as a result.

Even today, though it has to pursue TRPs and is trying to rework its fiction content as a result, it still doesn't seem to understand that it has to adopt one strategy wholeheartedly. Its previous attempt at portraying itself as an aspirational provider of differentiated content through an entire line up of new, refreshed content failed miserably in terms of TRPs. Its new strategy is to create fiction content aimed at the small town audience till about 8: 30 p. m., and then target the urban viewer post 9 p. m. It calls this as having both small-town prime time and city prime time content, thus catering to both segments of the television viewing population, in their view. However, it is extremely erroneous to segment viewers based on a combination of geography and television watching time, as I found out during my research that most viewers in small town watch a lot of content that airs post 9 p. m. This can also be verified empirically through a look at the TAM ratings, which clearly indicate that the highest watched shows by SEC B&C housewives in smaller towns are those that air post 9 p. m. In fact, the women of the household are busy preparing for dinner at the time when Sony plans to ai their small town fiction content, and preparing food outranks watching television in the priority list of small-town housewives. Unless it wholeheartedly targets the mass audience and does not perceptually map the viewer's requirements from its content, it will never be able to significantly increase its TRPs and regain its lost glory. And since the CID strategy cannot be continued in the long-term, the company needs to start planning for its future soon, starting by commissioning market research to understand the market and the viewer, strategize what gap in the market it is going to fill and how it's going to go about it, create pilot episodes for new content (the equivalent of R&D), schedule the show(production), negotiate

sponsorships and fix ad rates (sales force and pricing) and promote the show (through mass media), following the same model as the one propounded for Sonite and Vodite.

Appendix A: Phase One Analysis

Total Market Share

Total Retail Sales

Net Contribution

Stock Price Index

Appendix B: Phase Two Analysis

Appendix C: Phase three Analysis

Total Market Share

Sonite Market Share

Vodite Market Share

Total Retail Sales

Net Contribution

Stock Price Index

Appendix D: Company Key Performance Indicators vis-a-vis competition